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Perrigo at Morgan Stanley Global Healthcare Unplugged Conference - Final

UNIDENTIFIED SPEAKER: So I think we're going to begin our presentation. I'd like to welcome Perrigo today and the executive management team. We have Joseph Papa, CEO, Judy Brown, CFO and Ernest Schenk, Investor Relations. So we want to encourage the audience to participate as much as possible to keep this interactive discussion. You have microphones in front of you if you'd like to ask a question. And to kick it off, I wanted to ask Joseph if he'd start with a brief overview of the company.

JOSEPH PAPA, CEO, PERRIGO: Thank you. My pleasure. Perrigo is a company that really is a company that focuses all of our attention on trying to make healthcare more affordable and making high-quality pharmaceutical products for healthcare, whether that be, over the counter products or prescription products.

We essentially divide our business into three parts, the first part, the largest part of our business is consumer healthcare, where we focus our attention on producing store brand equivalents of the large branded products. The second part of our business is a prescription generic, prescription topical business primarily where we make bioequivalent generic prescriptions of the branded products.

The third part of our business is an API business, or active pharmaceutical ingredients business, where we have one of the top ten players in active ingredients as part of our business model. So it's really those three segments, consumer healthcare, which is store brand. The generic prescription business which is predominantly topical, and the third part of the business being the API or active pharmaceutical ingredients part of our business.

UNIDENTIFIED SPEAKER: Any questions from the audience?

JUDY BROWN, CFO, PERRIGO: Maybe just to add a little color, order of magnitude, total company revenue's about $1.5 billion. $1 billion of that coming from that consumer healthcare business, which as Joe said, store brand equivalent of over-the-counter products. That space is about 25% of the overall OTC healthcare market, store brands in total, and we have about two-thirds of that market of the store brands, just to give you an idea of the scale and the position that we have in that marketplace. We produce about 25 billion tablets at our facilities in Michigan, which go into that consumer healthcare business.

UNIDENTIFIED SPEAKER: How do retailers benefit from the sale of store brands. Can you talk a little bit

about the economics?

JOSEPH PAPA: Sure. I'd be happy to. I think you have to really use an example. It's probably the easiest way to talk about it. If a store brand, or maybe let's back up, the national brand is available by a retailer for $10. That's what the consumer would pay. On average, the consumer would pay approximately $7.50 for the store brand. So there's immediate savings to the consumer of approximately 25%. So clearly there's an advantage for the consumer.

The advantage for the retailer is that the economics would drive significantly better for the retailer when they -- when their customer buys a store brand. Let me give you an example. For that $10 item, for the national brand, the retailer probably paid $7 to $8. On the -- so they'll make somewhere around $2 let's call it, of profit.

On the store brand, for the $7.50, the retailer will probably buy in that $3 to $4 brand. So they make significantly better dollar profits, but also certainly a much higher percentage profit. A good example of that is the analgesic category where store brands will count for approximately 20% of the sales, yet they'll be -- represent approximately 40% of the units and in reality they offer or drive about 70% -- 7, 0 percent, of the gross profit in the analgesic category as an example.

UNIDENTIFIED SPEAKER: Can you talk about your omeprazole opportunity, program?

JOSEPH PAPA: Absolutely. Our omeprazole opportunity is the biggest opportunity in the history Perrigo. Omeprazole is really a Prilosec over-the-counter opportunity. Many of you know the Prilosec prescription part of the history, but several years ago, Prilosec was switched to over-the-counter status and introduced as Prilosec OTC.

Prilosec OTC is approximately a $600-plus million product today. It's growing by about 20% and the current part -- the current manufacturer or marketer of this product is Proctor and Gamble. They expect Prilosec over-the-counter to be approximately a $1 billion product. So a very large product.

We actually have partnered with a company called Dexcel, and we, together with Dexcel, filed the omeprazole OTC product in April of 2006. So essentially a year ago we filed this product. We were sued in May of '06 for our filing, but here we are one year into the time frame and to date we are still the only company that has filed against -- a generic against Prilosec over-the-counter. And we think that's a very significant opportunity for any company, but certainly for a company our size, at Perrigo.

We are optimistic in our belief that we can win this law suit. We will -- the lawsuit will start -- or the trial will start in November or later this year. We're very optimistic that we have a chance to win this patent battle based on the fact that our partner, Dexcel, has previously challenged this patent, different jurisdiction of course.

But they have overcome this patent in a different jurisdiction, and it gives us reason to believe that Prilosec OTC

or our generic equivalent of omeprazole over-the-counter store brand could be a very significant product for us at Perrigo, and in fact as I mentioned before, the largest product in our history.

UNIDENTIFIED SPEAKER: How much market share do you think you could get?

JOSEPH PAPA: That's a great question. Classically store brands will get somewhere between 20 to 25% share of a market. So from a dollar share point, classically the store brand will experience a 20%, 25% share. However, in this category, where it's a more expensive product, we have data [that] believe that we may get up to somewhere close to 50% share.

And as evidence for that statement, I look at the nicotine replacement therapy or the nicotine gum, the nicotine lozenge market, where indeed the store brand now has approximately a 50% share, which gives -- makes us optimistic that potentially we can get close to a 50% share with our generic -- or our generic product for omeprazole, which -- when compared to Prilosec OTC.

UNIDENTIFIED AUDIENCE MEMBER: Just to follow on that, you said that Dexcel, your partner, basically has prevailed in litigation in another jurisdiction Joe. Maybe you could just tell us what jurisdiction that was?

JOSEPH PAPA: That was the UK. That was in the United Kingdom.

UNIDENTIFIED AUDIENCE MEMBER: On the 25 billion tablets a year production, is that annual production?

JUDY BROWN: That's annual production. In addition, several million liters of liquids from a very large, if not the largest, producer of liquid formulations for cough, cold suspension, analgesics et cetera.

JOSEPH PAPA: I can't resist adding to that. I mean just you have to step back on that 25 billion tablets a year and just think about the US population. That works out to be 80 tablets for every person in America. I mean it just -- I think it really speaks to the critical mass that we have as a company in terms of how much tablets we make each and every year.

And I am -- I have only been at Perrigo about -- it's only been about six months, and I'm -- I have to be honest and say I didn't take my 80 tablets last year, but I'm going to work on how many tablets I take this year.

UNIDENTIFIED AUDIENCE MEMBER: Is 100% tablets or tablets and capsules as well?

JOSEPH PAPA: I would say over 99 -- 98% of ours are tablets. Capsules -- in the over-the-counter space, capsules are much less frequent. There are some, but they're much less frequent.

UNIDENTIFIED AUDIENCE MEMBER: 98% tablets?

JOSEPH PAPA: Yes, it's something to that fact. I don't know exactly, but well over 90%.

UNIDENTIFIED AUDIENCE MEMBER: Recently one of your largest competitors withdraw [some] products from the market. Could you talk a little bit about how that might be an opportunity for you and what you've done to take advantage of that?

JOSEPH PAPA: Sure. As I think many of you know, and as Judy said before, Perrigo is a very significant factor in the over-the-counter store brand space. We have a very significant share of that business. One of our competitors has run into some difficulty. They've had a conference call first on March the 22nd and then followed up with an additional conference call last Friday.

The bottom line of their conference calls is that March 22nd they stopped manufacturing and distributing their over-the-counter products, which account for approximately $184 million from the past 12 months sales. They stopped manufacturing, distributing on or about March 22nd.

Most recently last Friday they also made an announcement that in addition to stopping the manufacturing and distributing, they were also going to recall from the wholesaler and warehouse level their products based on discussions they've had with the FDA.

Clearly as a company, Perrigo looks to say what can we do to rescue our customers who are many of the same customers that this competitor had, and how do we make sure that we get them products as quickly as possible and rescue those customers? I had a chance, two weeks ago, to attend the NACDS, the National Association of Chain Drug Stores, Conference that was in Arizona.

I had a chance to meet first hand with many of the large retailers and talk about of the steps that we were taking to bring them products to replace the products that [Liner], sorry, our competitor had in the marketplace as soon as possible and in many cases we have started that process.

It's a not a process that happens immediately because you have to develop not just simply the tablets, we clearly could do that, but you also have to develop all the artwork and the bottling and our competitor wasn't often packaging in very large quantities.

You just have to make sure you have all the quantities available to supply our large customers. And we've been working very expeditiously on that. We started some shipments to our customers, more will happen as we go forward over the next several weeks and months ahead.

So we're making good progress. We're very optimistic. It's going very similar to our expectations in terms of our ability to help rescue our customers from the situation.

UNIDENTIFIED AUDIENCE MEMBER: When will we start to see the benefit in terms of your numbers, of increasing market share?

JOSEPH PAPA: I think it's starting to happen as we speak. We'll see most of the benefit though in -- by the end of our fiscal fourth quarter, which ends June the 30th and then we're moving into the -- our first fiscal '08 quarter starting in July through September. I think that's the kind of time we'll see the real inroads here as we've developed their additional labels that require -- make the products start shipping out.

Clearly in the interim though, we've clearly dramatically increased our manufacturing of the tablets in our facilities, so that clearly helps us with the in the short term, with the absorption of overhead and other dynamics within our factory. But I would say in the next -- over the next three to six months is when we'll see the primary impact of this opportunity.

UNIDENTIFIED AUDIENCE MEMBER: Joe, with the 184 million, what -- how much of that can you actually -- in terms of products you're making today?

JOSEPH PAPA: In terms of our percentage overlap you're asking?

UNIDENTIFIED AUDIENCE MEMBER: Yes.

JOSEPH PAPA: I would say the percentage overlap is somewhere in the 90% range. So we clearly have the majority of the product that they have. I don't want to suggest that we're getting 90% of their products. But in terms of just strictly the product overlap, we have probably 90% of what they have.

UNIDENTIFIED SPEAKER: How hard will it be for [Liner] to come back into the market? Can they do it all at once, bring all their products back? Or, do they have to go product by product? What's the process?

JOSEPH PAPA: Yes, it's hard for me to answer a question on our competitor of course and I don't want to suppose that I know what their issues are. I think it would probably be best for them to answer the question. All I simply could guess is that if the FDA had questions, they're going to have to solve the questions one by one as they say. Okay, Product A is now accepted to return to the market, now they'll have to go forward. But I would really probably have to defer to them to really answer that question.

UNIDENTIFIED SPEAKER: Can you talk about the Rx OTC switch market? And what are some big opportunities that you foresee for yourself?

JOSEPH PAPA: Yes. I think the -- one of the major strategic benefits that I should start with is that by Perrigo participating in the space that is the consumer healthcare store brand space as well as in the Rx space. It gives us the chance to leverage our capability on products that will switch over the counter.

And we have historically done that over the last 30 years. We've participated in more than 70% of the products that have switched in the past. So clearly that is a strategic advantage for us and I think now even more so gives us a chance to make investments in the Rx space if the product -- expecting the product to switch. If the product does not switch, we still can go out and sell that in the Rx space. So I think that clearly is one of the strategic advantages.

Let me talk more specifically about the space though. We clearly see very significant opportunities in the switch market. There have been, as I mentioned, a significant number of products that have switched in the past. We expect to see more in the future. In the interim, what are the ones we expect?

We clearly will see the switch, we believe, of Cetirizine, otherwise known as Zyrtec today. We've heard from, at least we've heard word in the marketplace, that there's an expectation that Zyrtec will switch in December of this year. So that clearly -- we'll see a switch of another non-sedating antihistamine with Zyrtec as an example.

I mentioned Prilosec before as a proton-pump inhibitor. We -- that product has switched. Our expectation is that you will see the other proton-pump inhibitors also switch into the OTC space. So for example, the Protonix, the Aciphex, many of these other proton-pump inhibitors, our expectation is you'll see them switched in the marketplace, Nexium as an example, that we would expect to see.

All told, we think there is approximately $10 billion of Rx OTC switch candidates that could occur in the next five years and that's actually before one of potentially the largest categories, the statins. And an interesting observation would be that I believe Medicore has tried to switch from Rx status to OTC status in the past.

To the best of my knowledge, they have not been able to do that. But just most recently, at one of the large trade association meetings, the FDA Commissioner talked about some additional ways that we would see potential products switch from Rx to behind the counter. Not over the counter, but behind the counter, very similar to the bar, Plan B. Very similar to the sudafedrine that has occurred in the marketplace.

It -- we're not counting on the statin to switch, but we do think that this third class, this third category of behind the counter may offer an opportunity for us in this space. Because it fits exactly into what we do in the store brand space. And clearly statins would be a likely candidate that could switch in that third category of drugs behind the counter.

UNIDENTIFIED AUDIENCE MEMBER: How big is the nutritional supplements market for you? And for Perrigo? And what do you -- what market potential do you see?

JOSEPH PAPA: Yes, our market -- first the vitamin and mineral supplements have a 200 -- somewhere?

JUDY BROWN: 15% to 20% of the consumer healthcare business.

JOSEPH PAPA: So somewhere around 200 million is the easiest way to say it. A little bit less, a little bit more, depending on what you put in each category.

UNIDENTIFIED AUDIENCE MEMBER: 200 in sales, right?

JOSEPH PAPA: Yes, 200 million in sales. Yes. And in terms of our share, our share in that category is much lower. We have a significant share in over the counter, but a much lower share in the vitamin and mineral supplements.

UNIDENTIFIED AUDIENCE MEMBER: Do you see that 200 million growing over time or --?

JOSEPH PAPA: Yes, I -- we clearly look to bring out innovative new products into that space. But I would be clear in saying that I think our primary growth drivers will be new products in the area, like omeprazole as well as the Rx space and the API space has really been primary drivers for growth in the business. We clearly are trying to bring new products out in the nutritional space, but I don't see that being our primary growth driver.

UNIDENTIFIED AUDIENCE MEMBER: What about converting nutritionals to OTC?

JOSEPH PAPA: I'm not familiar with many products that have switched from nutritional to OTC in the sense that of being able to make additional claims. It's really somewhat of a separate -- at least heretofore, it's been a separate market.

UNIDENTIFIED AUDIENCE MEMBER: More or less what Kos pharmaceuticals did with Niaspan which is a nutritional supplement, and Reliant Pharmaceuticals did it with omega-3s. So I mean they went ahead and did it, NDAs. And did more sophisticated clinical trials. So taking it to OTCs is not so complex. Giving these nutritional supplements more of a pharmaceutical look -- make up than just [plain] nutritional supplements.

JOSEPH PAPA: Sure. Just to be clear though, in that -- those two good examples, both of those are actually prescription products. Now that's not switching to over-the-counter, they're actually going to the full step to make them a prescription product. Good examples, I -- the nutritional business is an interesting one. It tends to -- I mean, those are good examples of products that have had some very successful marketing studies done and marketing claims that are now available by prescription.

Most of the -- most of those, the other nutritional products, tend to be more products that are -- that are continuing to evolve. They -- for example, right now we've introduced product, for cinnamon. And cinnamon's been a very interesting product from a helping to favorably impact glucose metabolism as an example.

I don't see those kinds of products entering into the Rx space, but clearly I just -- it's still early in its evolution. And as I said I don't want to diminish that, I think there are a lot of opportunities there. I think most of our op-

portunities that we're going to look at are predominantly in the Rx space, the OTC space, where we had ANDAs like omeprazole, switches like Cetirizine, have really been the major drivers. But we'll continue to look at those nutritional items as they become available.

UNIDENTIFIED AUDIENCE MEMBER: Joe, just to follow on your example in Zyrtec. If that product were to go APR say the (inaudible) OTC switch, does the innovator get some sort of date of exclusivity for some time? So I'm just trying to understand the timing of your entry on that kind of product?

JOSEPH PAPA: Yes. It's a good question and candidly the answer is I'm not certain yet at this point. We're going to be prepared to enter as soon as we possibly can, however, I can't predict or exactly answer the question, what's the basis for exclusivity that the innovator potentially could have? So I -- we're -- our role in this question is to be ready to launch this product as soon as possible.

We've got a couple of different pathways that we're going to employ to get there as quickly as possible. But I can't answer yet as to whether or they will get a one-year or a three-year exclusivity. And some products that have received that, other products have not, and it's just -- it's really we'll have to wait and see what data they come forward with and what the label looks like as they come forward into this marketplace. But to be clear, we will be out there and be ready as soon as we possibly can to enter that market.

UNIDENTIFIED AUDIENCE MEMBER: Can you talk about your acquisition of Agis and how that changes the strategy of your business going forward?

JOSEPH PAPA: Sure. The acquisition of Agis, I think is a very important acquisition that could build on the Perrigo story. If you -- if I can use the analogy of a house. Perrigo had a really strong foundation and a strong house and a good neighborhood in the, what I call, consumer healthcare or store-brand market. However, with that, we also said what ways can we expand and grow our business and seek other ways of growth? And what clearly came forward is in the Rx space there may be opportunities to grow the business.

So in many ways we had a real strong house, good foundation and we bolted on a prescription business and we also bolted on an API, or active pharmaceutical ingredient, business because one of the things I think will make all -- will be very important to the generic companies that are successful in the future is vertical integration. So indeed, we bolted on vertical integration of active ingredients, which we think are going to be an important part of it.

Let me go back to Rx though. One of the things that we -- my observation, I've had a chance to be around the generic pharmaceutical market, going back to 1992 I think is the first time I started working in this area. One of the things I think is important, not only is the vertical integration, but what products you go after. And Agis made a very good decision to predominantly focus their generic Rx business in topicals.

Why I think that is important is topicals are a much more challenging place to enter in terms of generic prescriptions. Most recently, one of the oral solid products in over-the-counter, I'm sorry, moved from a brand to a gen-

eric Ambient. When Ambient became generically available, I don't know the exact number, but I think it was something like ten to 12 players available in the first day. With that kind of a competitive situation, the price dropped dramatically to the point where basically people were selling it at cost of goods.

Now I won't say -- I think the topical business is also very competitive. However, you're not playing with ten players at the expiration of the patent. You're playing with two players or three players, and it's a much different dynamic, and it's much more difficult to show bioequivalence. Because not only do you have to show bioequivalence, you have to show clinical equivalence, clinical endpoints.

And I think that was one of the smart things that Perrigo did, it precedes me, but one of the smart things Perrigo did to go after a market where the bioequivalents requirements were at a higher level. So indeed, by bringing out those products into the marketplace, you are generating more value for your customers.

Judy, anything you want to add to that?

JUDY BROWN: I was just thinking when we originally began speaking with Agis, and we began building the strategy of pursuing a generics business to add to the over-the-counter consumer healthcare business that was in existence for over 100 years prior to the acquisition, the thought at the time was build off of the incredible leverage that we had with the production expertise.

Our channel knowledge, our distribution channels with the customer relationships we have with retailers. So being able to use that know-how that we have behind the scenes with development, and that production of the 25 billion tablets. And at the time, really, pursuing opportunities in the oral solids space.

Those didn't work, and serendipitously enough Agis came along with a topicals business, which was not the most natural fit when were thinking about the synergies for the company, but thought that there would be dynamism of having a topicals business that would be broadening the portfolio rather than just leveraging the oral solid extra piece.

And as it turned out, building off what Joe just said, you've seen what's happened in the oral solids space in the last several years. The economics of that have changed dramatically. And as it turns out with the great expertise acquired in the Agis acquisition around topicals, the broad topical definitions, the R&D, the know-how and the pipeline that came with that, we're able to leverage both that know-how and the distribution and the production side for consumer healthcare. And complementing that with the broader array of products and broadening our distribution capabilities by having that Rx know how (inaudible) as well.

UNIDENTIFIED AUDIENCE MEMBER: In the oral supplement market, the controlled release products are perhaps the most difficult to manufacture and the most difficult to pass bioequivalency and bioavailability. That would basically -- whenever there's a generic that's going to be coming out (inaudible) or four or five buyers not ten or 12. What do you think of the controlled release arena and controlled release products?

JOSEPH PAPA: I do think controlled-release is another way to limit the focus of your expertise -- or to limit -- it's really the focus of the opportunity. I think controlled-release is another area to focus your efforts on places that are more challenging to enter in with bioequivalents. I do think that is very true. I think there's a number of them.

One of them is, as we talked earlier, the OTC switch is there's some that there's not a lot of people that are in that space. In topicals, there's not as many people in that space because of the higher requirements for clinical endpoints. I think the controlled release is a good one.

I also think controlled substances, the substances that are controlled by the DEA in terms of quota, is another example of places where more challenging to enter into because you not only have to deal with the FDA, you have to deal with the DEA. And finally, I'd say hormones. Hormones are another area that are more challenging places. So there's a number of areas where you can focus as a company and trying to put expertise in places where it's more difficult to show bioequivalence.

UNIDENTIFIED AUDIENCE MEMBER: Going back to the controlled release and the Cetirizine, which is the active ingredient of the Zyrtec. What would you think of perhaps combining something that you can -- a product that you can sell high volumes of like a Zyrtec, but transform it into controlled release, so you have a better dosage form and something that would be more a unique product? So taking something that's standard, that a lot of people compete for and converting it to something more -- better product, better delivery system?

JOSEPH PAPA: Sure. I -- my answer on -- the question, I get posed those questions all the time, I've spent some -- many years actually running branded pharma companies. And I always go back to the very simple hypothesis, that if it can make a difference for a patient, if it can help improve a patient's life, then I think there's opportunities there.

So if taking Cetirizine and putting it into a controlled release gets you a better patient outcome from either an efficacy point of view or a safety point of view, I think clearly those are the things that, especially in the specialty pharma space are perfect for specialty pharma companies.

UNIDENTIFIED AUDIENCE MEMBER: Even from a basic compliance stand point, even if it's not more effective, but you have to take one a -- once a day instead of two a day, would that be something that (inaudible)?

JOSEPH PAPA: Yes, I think clearly the data is very clear that compliance is a patient benefit. So I think if that demonstrates a patient benefit, I think to have an opportunity just assuming it's a significant improvement then -- or one that people will pay for, I think that's the real question. But I do think if you can show dosing improvement, that is clearly something that has been well received in the marketplace. Please.

UNIDENTIFIED AUDIENCE MEMBER: Joe, just in terms of use of cash, I mean you guys bought Agis I think in 2005. You made a small acquisition of a lice product this past year. Are there other small acquisitions to make

and sort of just tuck ins or bolt-ons to your business?

JOSEPH PAPA: Yes, well I think what we've tried to look at now is what are the best acquisitions we can make that will improve our return on invested capital. So as we look at product acquisitions, if we can acquire a product like the lice products or like we also acquired some topical products from Stiefel.

If we can acquire products that we can put in through our current infrastructure without acquiring significant manufacturing capacity that does -- that's a real nice model for us relative to getting a better return on our invested capital. We get more absorption in our own facilities. Those are the kind of things that we're clearly looking at.

I wouldn't rule out any specific opportunity for acquisitions, but those are the kind we're especially -- where these product acquisitions that fit real well with the model that Judy and I have been working on in terms of trying to continue to take steps to return -- to increase our return on invested capital.

JUDY BROWN: And at the same time, in terms of uses of cash, we're one of the few players in the special pharma space paying dividends. We've been paying dividends now for approximately four or five years, and we have a 10b5-1 in place that is a pricing grid. So we're buying back shares within a pricing grid, and still, to your point, we have cash available for investments in CapEx as needed and looking for those opportunistic choices where we can do both on the portfolio or to Joe's point, if something comes along that would be a broader acquisition, looking at those as well.

UNIDENTIFIED SPEAKER: You mentioned earlier that hormones were an area that had greater barrier to entry. Is that an area that you would pursue in the future? Have you thought about doing like generic oral contraceptives?

JOSEPH PAPA: I think the question that was previously posed was what are some of the places where it's -- you can focus on to get more added value to your products and I clearly did mention hormonal products. I -- we do not have the capacity or the capabilities right now to focus on that. I think the hormonal category, the oral contraceptives category, is a very good category for a generic company to enter. At this time, I do not have those capabilities.

Having said that, I will say though that the team that I have in the API side in Israel is very knowledgeable about the entire steroidal chemistry. And I think that they can help us to bring -- and clearly it's a focus for them, to bring products to the marketplace in the steroidal category where they're more challenging APIs. So hormonal categories would fit there or even the oncology products that are based on hormonal chemistry, like the -- I'm trying to think of a category. The (inaudible) as an example, would be a very interesting category for us to be in.

UNIDENTIFIED AUDIENCE MEMBER: Do you have any resources or capabilities to dedicate time to the controlled-release category?

JOSEPH PAPA: We do have controlled release capabilities, although I would not claim to be a market leader in that category. We do have some controlled-release capabilities, absolutely, yes.

UNIDENTIFIED AUDIENCE MEMBER: Would more exposure to controlled release be something of interest or something that you would like to pursue?

JOSEPH PAPA: If I believe -- I would say the answer to the question is that predominantly at this point we have taken the focus in the Rx side in topicals as our primary area of interest. So by topical definition, most of those products are not controlled release, they tend to be more of the oral solid products.

I would also say that we view some of those things opportunistically. If we think that's a really -- as I mentioned, I do think it's an important category, if they can generate the patient benefits, there may be opportunities for us to look at specific products, but that would not really be a focus area for us in terms of controlled release.

UNIDENTIFIED AUDIENCE MEMBER: How much more lucrative are the topical generics products when compared to some of the more commodity type products in more general terms?

JOSEPH PAPA: Yes, I think that's a hard question in terms of margin structure because any given product depends on the number of competitors, it depends on your order of entry. I mean, [there's] a lot of characterizations there. But I would say from at least my experience in the industry that if you try to weigh the products, most of the difference will be just really the number of competitors that are involved with the product.

I mean there's always a question of who are the competitors of course as well. But I think most of it depends on the number of competitors and I -- and just my commentary on topicals tends to be there's less players in general in the category. But if there is five players in a topical product and five players in oral solids, I don't really expect there to be really that much difference in margins. I just think on average you won't -- you'll see less players in topicals is probably the best way to answer the question.

UNIDENTIFIED AUDIENCE MEMBER: Thank you. What's your outlook for the generics industry in the US in 2007 and how does that compare to the outlook for your company?

JOSEPH PAPA: Sure. Well I think -- I believe the generic industry will continue to be a major growth engine because of the fact that we continue to need a solution to healthcare and the cost of healthcare in the United States and around the world. So I clearly view generics as a solution for the healthcare -- reducing the growth in healthcare.

I -- as to how any given year will work out, a large part of that's going to depend on the number of competitors, the number of players that enter a marketplace. But I clearly view in general that generics will -- they're here today at somewhere close to 60% of the prescriptions being filed today with a generic. I still expect that to continue to grow as we go to the future. I think you'll see more three-tier co-pays to drive that.

I think the tough question for the entire industry on what's going to happen in the future is going to be the question of the AMP or the average manufacturing price, and the influence that has on the industry. Because today if you look at the incentives for driving generics in the business, everybody does better with a generic. The payer does better with the generic, the consumer does better with a lower co-pay, the wholesaler does better, the retailer does better, the PBM does better.

Everybody is incented to move towards generics faster. The question I think we have not answered yet is, how those -- how will all those drivers work in the future with an AMP model? I think that's just still a -- it's a question mark in my mind. And I know there's a lot of people that have done a lot of work in this area that they have different views. But I just think there's a bit question mark in terms of how that's going to drive the short term. That does not change my long-term views of the future. I think the generics will continue to be a very important player in the use of healthcare in the United States both in over-the-counter products, as well as the area of the Rx business.

In terms of our future, we're very optimistic with our future. Most of what we've done -- we've made big investments in research and development, we made a big commitment to innovation, we've increased our innovation dramatically from just a year ago, which helps us to fund programs like the omeprazole program, like the Cetirizine program I talked about.

Many other products that we have already under development that are Paragraph 4s that we believe will help us to drive our future growth. Being very specific with 2007, we continue to say our outlook is in that 86 to $0.91 for an EPS is the number that we continue to talk about in terms of our outlook for the future.

UNIDENTIFIED AUDIENCE MEMBER: Joe, Dr. Reddy terminated their agreement with your competitor. What kind of agreement was that, and do you know who the customer was?

JOSEPH PAPA: Well if you're referring to the -- in the Liner commentary? So I can tell you what I've heard. In the Liner agreement, they had an agreement with Dr. Reddy. Dr. Reddy was providing both APIs as well, active ingredients, as well as finished dosage -- bulk tablets to Liner. They have -- Liner has stated that Dr. Reddy has terminated that agreement based on their breach relative to the situation that Dr. -- that Liner faces with the FDA.

I actually -- the head of Dr. Reddy's US business is a gentlemen by the name of Mark Hartman. I had a chance to talk with Mark after that announcement and I think what I asked is, is there a way for us to look to collaborate with Dr. Reddy and ourselves at Perrigo? I don't have an answer yet, Mark was headed off to India for a meeting, but I'll continue to look to ways to say can Dr. Reddy and Perrigo collaborate in this category?

Because in the end, our customers, our mutual customers, are actually out there and they need help to -- we need to rescue those customers relative to what's happening out in the marketplace. And these are opportunities for us to collaborate. I don't have an answer to that, but I clearly will look to try to collaborate and see what we can do to try to rescue these customers who are [sitting there] without efficient tablets at this time.

UNIDENTIFIED SPEAKER: Okay. We're out of time. I wanted to thank the management team for joining us today.

JOSEPH PAPA: Thank you, very much.

JUDY BROWN: Thank you, very much.

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